Distr.
LIMITED

TD/II/WG.II/L.3
24 February 1968

United Nations Conference on Trade and Development

Original: ENGLISH

Second session
WORKING GROUP II
Agenda item 14

Dual Distr.

TRADE EXPANSION AND ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES, MEASURES TO BE TAKEN BY DEVELOPING AND DEVELOPED COUNTRIES - INCLUDING REGIONAL, SUB-REGIONAL AND INTER-REGIONAL ARRANGEMENTS

Statement made by the representative of the Secretary-General at the first meeting of the Working Group II on 23 February 1968

I

1. On behalf of the Secretary-General, I gladly take this opportunity of pointing to the main features of this subject matter which might otherwise remain submerged in the mass of documentation submitted to Governments at this Conference. The necessity to expand trade and create larger markets among developing countries is perhaps brought out most clearly by the fact that more than 80 per cent of the member countries of UNCTAD have a population of less than 15 million, and even most of those with a larger population have a purchasing power which is comparable to that of small European countries which have themselves felt the need to participate in larger multinational groups. If these developing countries want to push industrialization beyond a certain point, and if they want to avoid wastage of their resources through the establishment of enterprises of uneconomically small size or operating below capacity, the setting up of a multinational market becomes a necessity. According to calculations made in one of the developing regions, developing countries could reduce the trade gap by approximately one half if they decided to form a region-wide market. Moreover, if the developing countries wish to increase their exports to the very competitive markets of the developed countries, for instance by taking advantage of the setting up by the developed countries of a system of preferences for industrial products, they can hardly succeed unless they feel able to accept a certain amount of competition from other developing countries. While geographical proximity in a region or subregion favours, in general, the negoti tion of reciprocal commitments with a view to achieving an advanced degree of economic co-operation and integration, there is also a potential for mutually profitable trade links that could be established particularly, but in no way exclusively between more advanced developing countries of different regions.

2. What has so far been achieved to exploit these considerable potentialities? Let me here quote the Expert Group which the Secretary-General of UNCTAD has convened to examine this subject matter: It stated that "Governments have only in rare cases undertaken" the "effective action" which is necessary "if trade among developing countries is to expand, instead of stagnating". No doubt there are exceptions: Particularly two or three regional and subregional groupings are largely responsible for the fact that the share of the developing countries' exports directed towards other developing countries has ceased to diminish, though the share of the developing countries' mutual trade in total world trade has continued to decline.

II

3. Why are the results so modest? It is certainly not for lack of studies and solemnly declared intentions. One of the reasons is that some of the efforts are still going on. In other cases, a special effort was already required to simply maintain what already existed, that is, trade currents, for instance, within multinational markets inherited from pre-independence times but which had to be put on a more equitable basis in order to survive. A principal reason, however, for the relatively slow progress is the fact that to expand trade among developing countries special and probably greater difficulties have to be overcome than those which arise in connexion with similar efforts among developed countries. Let me enumerate some of these difficulties; for only if one is clearly aware of them, can the efforts for expanding trade and advancing towards integration be made really successful.

4. First, to the extent to which the developing countries are seriously preoccupied by their balance-of-payments situation, they tend to hesitate to reduce trade barriers. They will only do so if they are sure that the additional imports which would become possible would be compensated by additional exports of a strictly equal amount. The desire to obtain a strict and immediate reciprocity so as to avoid any risk of even temporary imbalance acts against the adoption of more far-reaching trade liberalization methods.

5. Another difficulty arises from the fact that in developing countries the proportion of revenue represented by Customs duties tends to be much higher than in developed countries. At the same time the tapping of other fiscal sources is less easy on account of the condition of the administrative apparatus. The Ministers of Finance are, therefore, often not showing excessive zeal when it comes to negotiating really substantial trade liberalization commitments.

6. Thirdly, in the conditions of underemployment which exist in most developing countries, a Government cannot risk endangering those employment opportunities that presently exist, and this contributes another ingredient to the reluctance to move ahead.

7. And if a reduction of trade barriers is, nevertheless, successfully negotiated, exports may still not take place because the developing country suppliers remain at a disadvantage even if their cost of production would be competitive. For instance, competitors from developed countries may still be able to offer goods on more favourable terms than suppliers from other developing countries because transport tends to be more expensive between developing countries than between developing and even distant developed countries, because the developed countries can offer more generous export credits, because the imports from the developed countries enjoy, in various cases, preferential treatment as against those from other developing countries, and because the developed country suppliers can sell goods under tied-aid arrangements, even though developing countries may be a cheaper source of supply.

8. Moreover, the problem of the differences in the level of development between countries which want to start a process of co-operation is not easy to resolve in view of the fact that very often the more advanced country is itself poor or has poverty-stricken areas within its own borders; this makes it politically difficult for such a country to assume the necessary responsibilities, especially in regard to what appears to involve financial transfers towards less advanced partners. And even among countries at a roughly equal level of development, each would like to be sure of having its share of the new enterprises that can be established thanks to the setting up of the multinational market.

9. Last but not least, the special nature of the problem of trade expansion among developing countries arises also from the fact that it is necessary to reconcile trade liberalization with the planning efforts that are considered necessary in most developing countries. If at the national level the development process is thus not left to the free play of the market forces, the same imperative will be felt when a multinational framework of economic development is being created. Yet, to plan or co-ordinate plans at a multinational level requires a stronger institutional framework and will of co-operation than when market forces are primarly relied upon. This has political implications which newly independent countries are at least as hesitant to face as the nations of the OLD WORLD.

III

10. What are the conclusions to be drawn from this rapid diagnosis of the particular problems encountered by developing countries in such joint efforts? They can be summarized under three headings:

11. First, for overcoming such difficulties and for attaining results that have a real effect on the rate of development, a long-term effort is required. Therefore, the expansion of trade among developing countries cannot be regarded as a substitute for improving, as soon as possible, the conditions of access and remuneration for the exports of developing countries to the developed world. This point has already been formally recognized by everybody at the 5th Session of the Board.

12. Secondly, these difficulties can only be overcome if one chooses very carefully the methods that would really be apt to achieve progress. In particular, it is not possible to rest content with copying the approaches so successfully followed in the developed part of the world. A combined approach bearing at the same time on trade barriers, investments and other financial aspects will probably most often be the only one that can lead to equitable and therefore politically acceptable results for all partners concerned. The Secretariat has come to this conclusion after studying and comparing systematically the methods which have been applied in the different regions; and we tend to think that the developing countries could learn a lot both from the successes and from the failures which other developing countries have experienced in other continents. From this, it appears clearly that a gradual approach is often most likely to overcome the difficulties and to convince countries, by concrete examples, of the advantages of co-operation, whereas too ambitious commitments may raise fears or may not be carried out. Accordingly, to think only in terms of common markets, free trade areas or economic communities among developing countries may often mean to miss grasping the more modest, but all the more real opportunities for progress. Already the mere reduction of trade barriers among developing countries to a more reasonable level would permit the emergence of certain trade currents, and by fixing for instance a certain ceiling to protection admissible within a group, it would become more difficult to take rational investment decisions that would be manifestly uneconomical when seen in a

regional perspective. In other regions again, and particularly between countries of different regions, only negotiations for item-by-item concessions can demonstrate to the enterprises and countries that other developing countries can be rewarding markets and thus contribute to changing the pessimistic view that the results which can be obtained from co-operation among poor countries are not such as to make it worth-while keeping up a sustained effort in that direction.

13. The third conclusion we have drawn is that while only developing countries can take the initiative for joint efforts, they could tackle the aforementioned obstacles much more effectively if for the solution of some of the problems they could count on the support of the international community. The more far-reaching a trade expansion effort among developing countries is to be, the more it will be handicapped by encountering the kind of problems which were enumerated before. Therefore, the more the developing countries have a reasonable expectation of assistance for solving these newly arising problems, the more they would feel encouraged to move ahead resolutely. Particularly appropriate channels for such support would appear to be regional or sub-regional development or integration banks for they could enable a particular group of countries to elaborate a sufficient number of multinational projects - which inevitably do not receive priority attention from national authorities - to modernize existing industries and enable them to face the consequences of liberalization, to enable capital from the area to participate in the new enterprises, and last, but not least, to ensure that relatively less advanced countries can also reap their share of advantages from the enlargement of the market; for the incipient industrial production that may be located in these less advanced countries the creation of regional or sub-regional market outlets will in many cases be more important than better access to the distant and very competitive markets of the developed world. Yet, if these banks are to play a decisive part in solving these various problems, they would have to receive an adequate share of external resources flowing into a particular group of countries that have decided to undertake a joint effort. Equally, as the UNCTAD Group of Experts on Payments Arrangements Among Developing Countries has pointed out, outside contributions to reserve funds, linked to multilateral payments arrangements among developing countries, would enable the latter to adopt more far-reaching methods for opening their markets to each other and would thus also permit, by the creation of larger economic units, a more efficient use of other development finance.

14. There is lastly the need for improving the dissemination of information, the training of staff and the technical assistance in this field. Presently it happens that efforts are undertaken with insufficient knowledge of what has practically worked in other regions, and what has not. The governments' desires to move ahead are often handicapped by the unavailability of sufficiently trained staff for tackling the difficult task of negotiations, and the experts put at the disposal of developing countries do not always possess sufficient practical experience of the commercial policy techniques on the one hand, and of integration on the other hand. Such experts are not easy to get, which makes it all the more necessary that the international community organizes itself in order to find them and make them available to interested governments.

IV

15. The secretariat has often been asked what action the present Conference could envisage under this item of the agenda. Since item 14 contains no indication of sub-headings, permit me to submit some considerations to the delegations with regard to the work programme. It can probably be presumed that the governments will not want merely to repeat the recommendations which have been adopted at the first Conference and which are couched in very general terms; I particularly refer to recommendations A.II.5 and A.III.8. Nor can UNCTAD realistically aim at adopting recommendations on what specific actions developing countries ought to take. Indeed the conditions in the various regions and the concrete needs and interests of the various governments differ quite widely and lead them quite naturally to place different emphasis on the approaches to co-operation which they adopt. For determining the specific content of reciprocal commitments among developing countries, the regional commissions of the United Nations and other regional bodies are therefore clearly the most suitable framework.

16. What can the Conference then do in this respect? I may recall that at the fifth session of the Board a discussion of this subject has already taken place, and the part of the Board's report which deals with this item may provide useful guidance to this Conference. We have therefore been distributing it as Conference Room Paper No. 2. Furthermore, I would like to draw attention to document TD/15 which we have submitted as the basic document for consideration of item 14 and

which summarizes the various UNCTAD studies on this subject matter which normally busy people do not have the time to read. In this report (TD/15) we have included in paragraphs 76-93 a number of considerations as to the subjects that may be dealt with at this Conference. I shall review them briefly:

17. The first point would logically seem to be the idea launched by the UNCTAD expert group and endorsed by most developing countries at the fifth session of the Board, that "it would be desirable that interested developing countries and their groupings consider stating at the second Conference the actions which they planned to undertake before the third Conference for expanding trade and increasing economic co-operation among themselves at the regional, sub-regional or inter-regional levels".[1/] By acting upon their stated intentions and by shaping their mutual trade and economic relations in such a way that they can serve development, developing countries would do their part in the global strategy for development which the Secretary-General of UNCTAD hopes to see emerge. In the Secretary-General's view, an unequivocal formulation of the determination of developing countries to take action along these lines would facilitate the efforts of UNCTAD to convince public opinion in the developed countries. For it would show that the developing countries do not only ask for the co-operation of others, but also co-operate among themselves.

18. The second point which this Conference might consider is the possible form of international support for joint efforts among developing countries. Outside support for joint self-help efforts of developing countries is probably, in various developed countries, a purpose of aid which is particularly attractive. Such a presentation may, therefore, help the efforts of some developed countries to come closer to the one per cent target. In this connexion, the developing countries have asked at the fifth session of the Board, and have confirmed it in Algiers, that the developed countries should "give serious consideration, before the second Conference, to the elaboration of a formal declaration of support for trade expansion and integration efforts among developing countries".[1/] Under the heading referring to international support action, one could, on the one hand, discuss the commercial policy attitudes of developed countries that may be needed

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1/ See A/6714, Part One, paragraph 169.

to enable developing countries to conclude agreements between themselves that would lead to an effective expansion of their mutual trade. The renunciation to most favoured nation or preferential treatment in connexion with trade arrangements among developing countries may be discussed under this heading. On the other hand, one could discuss and agree on the types of problems for which international financial support would be regarded to be legitimate and worth while, though, of course, concrete financial support could only be granted on the basis of a careful assessment of the specific needs of a particular scheme which a group of developing countries might present. In this connexion the problem of the international recognition and support for multilateral payments arrangements among developing countries could be brought up, all the more that the UNCTAD group of experts has come up with specific recommendations which have not yet been the object of the desirable thorough inter governmental considerations. Also the question of untying of aid for imports that other developing countries can offer on competitive terms may be discussed under the heading referring to international support action.

19. A third group of questions relates to institutional matters, that is to the further action of UNCTAD in this field. One problem that might be considered in this connexion is that in spite of numerous studies by expert groups and the UNCTAD secretariat, the subject of trade expansion and economic co-operation among developing countries has received exceedingly little attention within the present committee structure of UNCTAD. In every committee the main attention was given to economic relations with the developed countries, the implementation of which is in the short term no doubt of greater urgency. Furthermore, the uncertainty as to when and where specific discussions on this subject will take place has not facilitated the participation of specialists from the regions and the countries, though a number of them had expressed great interest in international consideration of this matter. Therefore, if the strengthening of economic and trade ties among developing countries has really the importance both developing and developed countries commonly tend to attribute to it, it may be useful to examine <u>how</u> the effectiveness of UNCTAD action in this field would be enhanced. Should, for example, mechanisms be established which enable and indeed encourage developing

countries to present concrete schemes for the implementation of which they feel they need some form of international assistance? A further question to consider is what would be the appropriate institutional framework for carrying out multilateral trade negotiations among all interested developing countries, regardless of whether or not they are situated in the same region; I may recall that such negotiations among those developing countries that are members of GATT are about to start. Governments may also wish to indicate the specific research tasks that UNCTAD should shoulder in the future, and the question may also be considered whether there are presently enough funds at the disposal of regional commissions, countries and groups that need export support in connexion with concrete negotiating efforts.

20. To conclude, for each of the three groups of problems - intended action of the developing countries, international support of action, institutional arrangements - the report of the fifth session of the Trade and Development Board, supplemented by the Algiers Charter and by TD/15 would appear to indicate which are the issues that may deserve consideration by this Working Party which is working under considerable time limitation.